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Page 1

## FINANCIAL POLICIES AND PRACTICES FOR LOCAL TRANSIT SYSTEMS

*Is public transit doomed? What is being done to aid private transit systems? What are the alternatives to municipal ownership of transit systems? What future trends can be expected in the transit industry?*

The past 10 years have magnified a problem which began in the 1930's — the financing and maintenance of local transit systems. The problem has come to fruition since 1950 because of the vast expansion of automobile traffic which has challenged the economic stability of the bus, trolley, and subway systems of the nation.

The purpose of this report is to bring the problems of mass transit into sharper focus, to outline some of the methods which have been used by both publicly and privately owned transit systems to improve their financial position, to examine the feasibility of municipal ownership of transit systems, and to explore the future of mass transit.

The financial problems of local, interurban, and metropolitan public transit systems are too well known to require elaboration here. It is sufficient to point out that four large local governments recently have acquired privately owned systems as the only practical alternative to complete abandonment of service: Dade County (Miami), Florida; Memphis, Tennessee; San Antonio, Texas; and Tacoma, Washington. Another indicator of the financial problem is the fact that the index of union hourly wage rates for transit operating employees (on the basis of 1947-49 equals 100) stood at 173.7 on July 1, 1960. Since payrolls comprise by far the largest portion of transit system costs, it can be seen what the impact has been.

This report is based on information furnished by 81 local governments.<sup>1</sup> In July, 1961, questionnaires were sent to 98 local governments, and the returns were as follows: 55 out of 66 cities with city-owned transit systems (questionnaires were sent to all cities over 5,000 population known to have city-owned systems), 24 out of 30 selected cities with privately owned transit systems, and two out of two cities where the transit system is under the control of an independent transit authority which is responsible to the state government.

### Ownership Patterns

The four basic patterns of transit ownership in the United States are:

1. Private. Under this system, transit facilities are owned and operated by a private company.

<sup>1</sup>City-owned systems: Bakersfield, Culver City, Gardena, Montebello, Oceanside, Ontario, Oxnard, San Francisco, San Buenaventura, Sacramento, Santa Monica, Santa Rosa, and Torrance, Calif.; Greeley, Colo.; Coral Gables, Dade County, Fernandina Beach, Panama City, and St. Petersburg, Fla.; Savannah, Ga.; Chicago and Pekin, Ill.; Michigan City, Ind.; Henderson, Ky.; Monroe, La.; Greenbelt, Md.; Greenfield-Montague, Mass. (one system serves both cities); Ann Arbor, Detroit, Jackson, Kalamazoo, Port Huron, and Saginaw, Mich.; Springfield, Mo.; Roswell, N. M.; Long Beach and New York, N. Y.; Ashtabula, Cleveland, Maple Heights, and Shaker Heights, Ohio; New Castle, Pa.; Memphis, Tenn.; Haltom City, San Angelo, and San Antonio, Tex.; Radford, Staunton, and Winchester, Va.; Seattle and Tacoma, Wash.; Ashland and Janesville, Wis.; and Calgary, Alberta, Canada.

Privately owned systems: Boulder and Denver, Colo.; Washington, D. C.; Indianapolis, Ind.; Wichita, Kan.; New Orleans, La.; Bangor, Me.; Bay City and Grand Rapids, Mich.; Minneapolis, Minn.; Joplin and St. Louis, Mo.; Atlantic City, N. J.; Buffalo and Watertown, N. Y.; Cincinnati and Toledo, Ohio; Eugene and Portland, Ore.; Philadelphia, Pa.; Nashville, Tenn.; Dallas and Houston, Tex.; and Milwaukee, Wis.

State authorities: Los Angeles, Calif., and Boston, Mass.



2. Municipal. Under this situation the transit facilities are owned by the local government. They are usually but not always operated by the municipality. In several Michigan cities (Jackson and Ann Arbor, for example) buses are leased by the city from the bus company, and the bus company operates the buses for the city. Under Michigan law, this constitutes a municipally operated system.

3. State. Under this system, the state assumes complete control over the direction of the transit facilities. The Metropolitan Transit Authority of Boston, Massachusetts, is an example. The Authority is governed by a board of three public trustees appointed by the governor. An advisory board, comprised of mayors of cities and chairmen of selectmen of the 14 cities and towns served by the Authority, has an approval power over setting rates and appointment of the director of the transit system.

4. Mixed. These are systems where both private and public ownership is held over parts of the same transit system. It most often occurs where a rapid transit system is in operation. In Newark, New Jersey, the subway is owned by the city and leased to the local transit company. In Philadelphia, the city owns 54 miles of 75 miles of subway and elevated lines, which it leases to the Philadelphia Transportation Company.

Most states regulate private transit facilities through a state public utilities commission; some states also regulate municipally owned utilities. Detailed information on state regulatory functions over public utilities may be found in *The Book of the States, 1960-1961* (Chicago: The Council of State Governments, 1960), pp. 500-501.

### Transit Problems

As a result of increasing costs and declining revenues, a financial crisis has developed for transit in many cities, and the situation has made modernization impossible. Many transit companies have been forced to abandon operations, and some cities, unable to assume municipal ownership, have been left without transit service. For many companies, there appears to be no end to the vicious spiral of mounting costs, higher fares, and declining service and patronage.

Appendix A is a complete listing of income and expenditures for the city-owned transit companies in 56 cities. It seems apparent from these figures that very few companies are making money; most are content if they just break even. Appendix A also lists the following information for these cities: name of municipal board or authority having control over transit operations, number of persons serving on the board and method of appointment, name of the public authority which sets transit fares; and who appoints the director of the transit system.

Transit operations are particularly unprofitable in cities where large investments in rail and rapid transit have been required to accommodate a high density of population and where as a consequence it has been difficult to adapt to changing urban patterns or to take advantage of motorized transportation. Deficits are also being incurred in old cities where the history of transit shows a long period of low fares and high dividends that made it impossible to set aside sufficient revenues to renew equipment and to keep up with technological change.

Population growth, density of population, increases in automobile traffic, narrow streets, inflation, factors within the transit industry (obsolete facilities, the cost of modernization of equipment, peak-hour problems, and rising costs and fares), and city streets more appropriate to the 19th than to the mid-20th century have all contributed to the financial crisis.<sup>2</sup>

Given these problems, what can be done to aid the transit industry to survive? The following section of this report outlines some of the steps taken by local governments and private transit companies to remedy the situation.

### Methods for Improving Transit

Many methods have been devised and proposed for aiding public transit systems in the past

<sup>2</sup> For a full analysis of these problems, see Wilfred Owen, *The Metropolitan Transportation Problem* (Washington, D.C.: The Brookings Institution, 1956).



decade. These include direct subsidies, elimination of taxes or special charges, adoption of taxes and special charges, franchises with special financial arrangements, promotion of transit service, transportation planning, and other measures.

### Direct Subsidies

Direct subsidies are just what the term applies — a direct cash outlay by the city government to help the transit system meet operating deficits and finance capital improvements. They are in use in at least nine cities.

Philadelphia. The city subsidizes the local transit company to the extent of about \$4,000,000 per year on facilities leased to the transit company. This is the excess of expenditures for debt service over the amount received as rentals, in effect a direct city subsidy.

Another subsidy program of the city government involves a smaller amount of money, but it has received a great deal more attention, nationally as well as locally. This is the program for financial support of commuter railroads serving the Philadelphia metropolitan area. This is done through a nonprofit corporation, the Passenger Service Improvement Corporation of Philadelphia, that was organized by the city, the Pennsylvania and Reading Railroads, and 23 railroad unions. The program has been in effect for almost three years and began experimentally with a subsidy for one railroad line serving sections inside the city. Later the service was extended to other lines inside the city, and plans are now under way to extend the service outside the city to Montgomery County and part of Bucks County. Still other extensions of service will be made later to Delaware and Montgomery Counties. The city government and the four counties all will participate financially in the subsidies needed for the commuter service.

Radford, Virginia. Quoting from the reply submitted by this city, the city-owned transit system "... operates at a loss and is from time to time subsidized by the general fund. The operation does replace the need for operating school buses which results in a saving of an estimated \$6,000 annually, so the over-all operation is a sound though not highly profitable enterprise."

New York City. The New York City transit system is managed and operated by the New York City Transit Authority. By state law the city is responsible for all capital expenditures for new cars, new buses, modernization of signal systems, lengthening of subway platforms to permit operation of longer trains, and other improvements. In 1960 the interest for amortization of debt for capital improvements — that is, the city subsidy — was \$92.4 million. In addition the city voluntarily pays the Authority for losses sustained because of the reduced fare for school children, about \$11 million per year, and for transit system police, about \$8 million per year.

Boston. The Metropolitan Transit Authority technically is an agency of the state government that serves the greater Boston area. In 1960 the system had revenue of \$36 million, expenditures of \$57 million, and a loss of \$21 million. This loss is met annually by direct assessment against the 14 cities and towns served by the Authority.

San Francisco. The San Francisco Municipal Railway, a city-owned utility operating inside the city, receives an annual subsidy of about \$5.5 million.

Santa Rosa, California. The city subsidizes the city-owned system to the extent of 1 cent on the annual tax rate for capital improvements.

Bakersfield, California. The city government can and does tax up to 5 cents per \$100 of assessed valuation to obtain operating funds for the city-owned transit system.

Michigan City, Indiana. "The city runs its own system and subsidizes it by taxes."

Oxnard, California. "Operating deficit paid from general fund."

### Elimination of Taxes and Charges

This has been a popular and relatively inexpensive way to aid transit systems in all parts of the United States. During the decade of the 1950's, according to the American Transit Association, almost 300 individual cases of transit tax relief for privately owned companies were enacted in the



United States and Canada. The taxes and charges that have been reduced or eliminated have included franchise payments, gross receipts taxes, seat-mile taxes, registration and license fees, gasoline taxes, and a host of special charges for street paving, snow removal, and other municipal services. In addition to city government actions, many states have enacted laws repealing or reducing various state taxes.

Seattle. Cooperation between the city government and the separate city-owned transit system can well be illustrated by the elimination of taxes and charges in Seattle, Washington. The Seattle transit system is city-owned and must operate within its own earnings. In 1959 and 1960 the city eliminated the 2 per cent gross earnings tax as well as the annual flat sum of \$67,000 paid by the transit system. The city has absorbed the cost of painting and signing bus zones and clearing snow and ice on transit routes. The city also has been successful in securing state legislation repealing state gasoline and diesel fuel taxes for the transit system.

### Adoption of Taxes and Charges

Many proposals have been made for taxes and special charges that would in effect subsidize a local transit system whether publicly or privately owned. These proposals include an earmarked gasoline tax, earmarked registration fees, special property tax levies, and central business district parking charges. The theory is that a public transit system is of community-wide benefit and therefore should be paid for in part by the community at large.

The Chicago Transit Authority is the major example where a serious attempt has been made to secure adoption of a special tax. The CTA twice has proposed to the Illinois State Legislature that authority be granted to Cook County, in which Chicago is located, to levy a gasoline tax of 1 cent per gallon. The proceeds were to be used to construct capital improvements and extensions to the rapid transit system and to purchase, improve, and pay for any deficits of commuter railroads which would be operated as extensions of existing CTA rail rapid transit routes.

This proposal was opposed by automobile associations, motor freight associations, commuter railroads, and legislators from suburban areas. The measure was first introduced into the Illinois Legislature in 1959 when the House failed to pass the bill. In 1961, the bill was passed by the House but died in Senate Committee.

### Franchises

In some states it is possible to draft a flexible franchise so that fare adjustments can be made easily and quickly to meet a decline in revenue. These approaches may take the form of the operating-ratio method, an escalator clause, and various lease-back arrangements. At least seven cities, including four in Michigan, are known to have franchises that provide a flexible approach to the financial operations of the transit system.

Cincinnati. The city adopted a franchise ordinance in 1952 that has an escalator clause with a total of 27 steps in the fare structure, and the initial fare was set at step 13. A review of incoming expenses is made every six months, and if necessary the fare structure is changed in accordance with the results. If during any six-month accounting period, the company earns a net return of less than 3 per cent a year on its common stock, the fare schedule goes up to the extent necessary to produce the minimum during the ensuing period. If on the other hand, the company earns more than 6 per cent during any six-month accounting period, the fare schedules are adjusted downward to bring the company's earnings within the 6 per cent limit.

The franchise ordinance also abolished all previously existing assessments for street maintenance and maintenance of bus zones and stops. The state of Ohio has waived the gasoline tax and provides a nominal license fee.

Four Michigan Cities. Ann Arbor, Jackson, Kalamazoo, and Saginaw, are using the "Jackson Plan" to provide financial support for the local transit system. Under this plan the city "owns" the bus system, leases the capital equipment of the privately owned bus company, and retains the management services of the company. This constitutes a municipally owned system by Michigan law,



and it eliminates the payment of federal and state taxes on gas and oil and reduces bus registration fees to 50 cents per license plate. Quoting from one of the replies submitted, this leasing arrangement works well for the city, "... but offers no permanent solution to the problems of mass transportation and growing disuse of bus systems."

Wichita. In 1960 Wichita, Kansas, negotiated a 10-year franchise with a privately owned bus company that essentially is an operating-ratio type of franchise. The company is allowed to earn profits up to 15 per cent of gross revenue during any 12-month period. If profits, on the other hand, drop below 8 per cent of gross revenue, the company can increase fares or make route or schedule changes on its own authority. The franchise also provides that the company's maximum profit shall be 15 per cent of the depreciated replacement cost new of the company's physical equipment. This provision was inserted to insure periodic replacement of buses on an eight-year cycle.

The system has worked well. The company installed a complete new fleet of air-conditioned buses and made a 25 per cent increase in route miles, thus extending service into many additional areas of the city. The Wichita franchise terms, together with a commentary on the franchise provisions, are set forth in Appendix B.

Memphis. The city purchased the physical assets of the Memphis Transit Company early in 1961, and transit operations now are supervised by a three-member transit authority appointed by the city council. The transit authority has negotiated a management contract with the Memphis Transit Management Company, a new corporation composed of three top executives of the liquidated Memphis Transit Company. The corporation secured the contract under competitive bidding. The corporation will operate the transit system for the city, hire personnel, administer labor relations, handle payrolls, and administer employees group insurance and pension plans. The transit authority will handle all purchasing. The management fee, covering compensation and certain corporate expenses, is 0.98 per cent of gross revenue. (The Memphis Transit Company had gross revenues of \$5,352,000 in 1959.) Through tax and other savings, the contract arrangement is expected to reduce operating costs by about \$1 million per year.

### Promotion and Service

Many transit companies, both publicly and privately owned, have experimented with a variety of promotional schemes to increase patronage. These have included park-and-ride, shoppers' specials, reduced rates for off-hour service, express buses, reimbursement of the bus fare by downtown merchants, and similar schemes. It is generally recognized that such measures when taken in isolation are ineffective. They can be highly effective, however, when worked in with transportation planning, flexible franchise provisions, good service, attractive equipment, and other aspects of a good transit system. Among a number of cities that have and are conducting good promotional programs, three have been selected for purposes of illustration.

Coral Gables, Florida. The bus routes in this city-owned system are inspected regularly to insure that the best possible routing and scheduling are provided for the public. Transfer points also are checked to provide the maximum mobility to the public for a single fare. This program of continual inspection also helps in adjusting service to public needs either by expansion or contraction.

The bus system works closely with local merchants in providing more buses for special "bargain day" sales. School pupils travel at reduced fare and upon return to their homes after school are delivered to their own doors. The city is providing good service, and revenues are sufficient to cover operating costs. The city, however, must subsidize all capital improvements.

Santa Monica, California. This city has received national recognition for its long-range public relations program to increase patronage for the city-owned bus system. Calendar 1960 was the sixth consecutive year that revenues and passengers had increased. Advertising and promotion have been aimed at the potential nonrush-hour patron and have been backed up by maintenance, clean buses, and courteous drivers in full uniform. Service is provided for a 15-cent fare with 5 cents extra for the zone rate on longer routes.

One campaign feature is to send printed schedules and announcements to all persons requesting



information about a particular bus arrival or departure. If possible this information is delivered directly to the home of the person making the inquiry by a uniformed service supervisor. In early 1961, 10 bus drivers and the city transportation superintendent went to Detroit and drove back 10 new buses on a 10-day good-will trip that served to publicize the city.

San Antonio. The city acquired the privately owned system on May 1, 1959, and since then has installed a number of improvements in equipment, facilities, and service. Attractive bus stop shelters have been built; 35 new air-conditioned buses have been placed in service; shoppers' specials have been established; and routes have been extended with more frequent service. When the mid-day Dellview Shoppers' Express was started in mid-1959, transit employees made house-to-house calls in the areas served and left timetables and literature about the service. Buses were redecorated and painted for this run, and a special routing over an expressway was provided to step up the schedule. The Dellview Shoppers' Express has been a financial success from the start.

When the city purchased the new air-conditioned buses, they were displayed in the central business district and in suburban shopping centers. The new buses then were run free to the public for three days on a shoppers' special. The buses then were put in permanent service on six of the heaviest and longest lines, and an intensive house-to-house campaign by transit employees was made along these lines to sell the new service. As a result, a survey has shown that the buses are carrying many new women shoppers who did not use bus service before.

### Transportation Planning

In 1956 the statement was made that transportation planning "... is the only [approach] that will bring a long-term solution to the financial problems of urban transit in most cities. It is also the approach that has been the most neglected."<sup>3</sup>

In the intervening five years many steps have been taken to overcome this neglect. Perhaps the most important has been the work accomplished by the National Committee on Urban Transportation which has resulted in the publication of an over-all report, *Better Transportation for Your City*, and a series of procedural manuals on all phases of urban transportation planning. One of the manuals deals specifically with transit systems. The work of the committee, and the subsequent report and manuals, were developed on the basis of pilot studies in eight cities: Detroit, San Diego, Phoenix, Syracuse, Albuquerque, Oak Park (Illinois), Crawfordsville (Indiana), and Pocatello (Idaho).

Many good examples can be cited of transportation planning on a sound and comprehensive basis. Examples include studies under way and completed for Philadelphia, Chicago, Nashville, Phoenix, Tucson, and San Francisco. All such studies have at least two common characteristics: (1) They give attention to the entire area affected by the transportation problem, be it county-wide or metropolitan area-wide; and (2) they consider all forms of transportation, including automobiles, commuter railroads, intercity and local bus systems, and rapid transit.

Smaller cities should be working at least on street classification, a study of the existing street system in cooperation with the state highway department, an inventory of transit and transportation resources, and a review of transit system operations in relation to the comprehensive city plan.

Transportation and transit planning should be integrated with comprehensive city planning so that consideration can be given to proposals for off-street parking lots, highway bypasses, a pedestrian mall for the central business district, street resurfacing and widening, and street lighting.

### City Government Cooperation

Another method of improving public transit service is the rather nebulous area of city government cooperation with the transit system. It means that transit be considered along with off-street parking, expressways, highway bypasses, and other portions of the transportation system serving a city and surrounding area. It means also that the city should underwrite the cost for all street maintenance services, including snow removal and street cleaning. Finally, it means that the city should work closely with the transit system to encourage public use of transit.

<sup>3</sup>David S. Arnold, "Financial Problems of Urban Transit Systems," *Public Management*, September, 1956, p. 198.



In Seattle, for example, the traffic engineer and the city police department make every effort to work with the transit system so that convenient service can be offered to the public. Special consideration is given in the location and size of bus loading zones; certain turning movements are limited to transit vehicles; and other traffic and engineering measures have been taken to contribute to higher speeds and better schedules. The city has taken over all work on cleaning snow and ice on transit routes and has worked closely with the transit system in obtaining state legislative relief from gasoline and diesel fuel taxes.

Philadelphia, as was described earlier, has taken the initiative in providing subsidies for commuter railroads. The city also has provided parking lots at several major transit stations and works closely with all news media to secure publicity on the importance of transit to the public. In Houston, the city operates a large parking lot at the terminal for a shoppers' special line and permits all-day parking for 10 cents.

In Calgary, Alberta, the city council has worked closely with the recently formed Calgary Transit Commission in a planning program that has a dual objective of enhancing the attractiveness of the central business district and improving the financial position of the transit system. The planning report gave attention to one-way street patterns, a central transit terminal, a pedestrian mall for the central area, and bus loading arrangements integrated with the mall.

Other Methods. Other methods for benefiting public transit largely relate to automobile traffic control and transit operations.

Traffic control includes recommendations developed by traffic engineers and the police for facilitating a smooth and uninterrupted flow of automobile traffic, which in turn may benefit urban transit. These are the recommendations that are developed for existing street systems and include prohibitions of left turns, no-parking and no-standing rules, one-way streets, off-street truck loading zones, traffic lanes reserved for transit vehicles, synchronized traffic signals, off-street parking lots for the public, and the like. It also includes police regulations for eliminating or restricting parking in the central business district, compelling off-hour deliveries to stores and other establishments, and even (as proposed in New York City) staggered working hours for office workers to relieve congestion on transit.

Transit operations improvements include a number of approaches discussed in earlier sections of this report, including express buses, charter buses, commuter specials, shoppers' specials, park-and-ride service with fringe parking lots, and modern equipment.

#### Transit in the Future

The future of public transit is far from good, but it is not hopeless. In considering the position of the transit industry, city managers and other city officials should keep these points in mind:

1. The transit industry by and large is not making money. In some cases, notably commuter railroads, the companies would like to pull out. For many cities, if public transit is worth saving, the cities must be prepared to invest in it.

2. Cities should be prepared to take an intergovernmental approach to public transit. In metropolitan areas it means obviously that the central city and the suburbs must work together on a unified system to serve on an area-wide basis. Even the smaller, independent city must work with the school district, the county government, and the state government on financial support and long-range planning.

3. Finally, some cities, especially the smaller, independent cities, must be prepared to write off public transit as not worth saving.

Each city should take a realistic look at itself before evaluating the transit system. The kind of city, as described below, has much to do with transit potential.

#### The Independent City

One half of the cities in the United States over 10,000 population are "independent" cities — that



is, they are located outside standard metropolitan statistical areas and thus are not classified either as suburbs or as central cities. Almost 80 per cent of the independent cities are between 10,000 and 25,000 population, and none is over 50,000.<sup>4</sup>

The independent city faces transit problems decidedly different from those faced in the cities located in the metropolitan areas. The point eventually is reached in the smaller, independent city when the price of urban transit outweighs the community benefit. Many of these cities have central business districts that are quite small in area, can accommodate rather easily a large volume of automobile traffic, and provide a reasonable amount of off-street parking. Most of these cities offer cab or jitney-type service that is a substitute, although at a higher price, for public transit.

The alternatives are abandonment of service, municipal acquisition of the bus system, or governmental subsidy. Both public need and public benefit should be ascertained before any of these steps is taken. This may involve an economic-base study of the city and surrounding agricultural area with projections on population, economic growth or decline, retail business, automobile ownership, and other factors. With the help of the state or county highway department, an origin-destination study will help in determining the amount and kind of automobile traffic flow and its relation to potential for bus service. The benefit, if any, of bus service to the central business district should be studied to see whether the CBD is worth a subsidy.

### The Suburb

Suburbs present something of paradox. Many, especially the dormitory or bedroom suburbs, could not exist without commuter railroads. The local bus systems, however, are not nearly as important. Suburban communities are likely to have a high percentage car ownership. Some suburbs do not have a central business district of any importance, and their inhabitants use regional shopping centers or the central business district of adjacent larger cities.

Suburbs generally cannot support a bus service except on an area or metropolitan basis. When the service is localized within one or two suburbs, it faces the same financial hazards as service in the smaller, independent city.

### The Central City

The central city in a metropolitan area generally is a larger city, and it is here that a sufficient economic base is provided to make public transit feasible. About one-half of the central cities are over 100,000 population, and none is less than 25,000 population.<sup>5</sup>

The central city can be considered only in the context of the metropolitan area. In the decade of the 1950's, about 85 per cent of the total population increase in the United States occurred in standard metropolitan statistical areas. These are the areas of increasing population growth, increasing automobile registrations, and increasing traffic congestion. These are the areas that need all forms of transportation — the private automobile, the local and interurban bus, and, for very large areas, elevated and subway trains and commuter railroads.

In a few metropolitan areas private transportation companies are doing well. Some of the commuter railroads serving Chicago and San Francisco, for example, have made valiant efforts to improve schedules and service and to provide better equipment. Nevertheless the over-all prospects for financial self-sufficiency in central cities and metropolitan areas are not good. On the other hand, abandonment of service cannot be considered because public transit is an absolute necessity. Thus the only alternatives are municipal ownership (or ownership under a county or special district) or municipal subsidy.

Almost all of the municipal officials furnishing information for this report said that they saw no future for private transit in the United States. The report submitted for Philadelphia stated bluntly:

<sup>4</sup>Victor Jones and Andrew Collver, "Economic Classification of Cities and Metropolitan Areas," *The Municipal Year Book*, 1961, pp. 69 ff.

<sup>5</sup>*Ibid.*, p. 77.



Privately operated transit has no future because it cannot possibly be a profit-making operation against taxes to some \$25 million dollars [per year]. It certainly seems foolish to us to throw away an efficient carrier merely because it can get only 90 per cent of its cost out of the fare box while government supports much greater than 10 per cent of the cost of automobile operation....

A great deal has been published on the subject of public transit in large metropolitan areas in magazines and newspapers. It is not necessary to belabor the point. The future of public transit in the central city and the metropolitan area lies in comprehensive transportation planning and governmental financial participation.

### The State

State governments began to take an active part in urban transit in the early 1950's when they enacted laws eliminating or reducing taxes and fees of all kinds that applied to transit companies. State laws also were enacted to give cities authority to take such actions by local ordinance. State laws have been passed to provide for metropolitan transportation agencies in New York, Chicago, Los Angeles, San Francisco, Baltimore, Boston, and other areas. Some of these agencies, as in San Francisco and Los Angeles, are just beginning their operations.

The Advisory Commission on Intergovernmental Relations states that the urban transportation problem is "a combined state and local responsibility."<sup>6</sup>

The Commission made two recommendations for the role of state governments. First, states should authorize local governments in metropolitan areas to establish corporations or authorities for the management of area-wide transportation facilities and services. Second, states should take appropriate legislative and administrative action to extend technical and financial assistance to metropolitan areas for planning mass transportation.

"Intergovernmental cooperation," long an empty term for platform oratory, is beginning to take on some substance. New York, New Jersey, and Connecticut are working toward official establishment of the Metropolitan Regional Council to provide representation for local governments in the New York area. The council can consider anything of area-wide significance, including urban transportation. The Council of State Governments, in its 1956 publication *The States and the Metropolitan Problem*, pointed out that the states "... are the key to solving the complex difficulties that make up the general metropolitan problem."

The states also are working on urban transit indirectly through the federal-aid highway program. State highway departments increasingly are using the transportation planning rather than the highway planning approach in the development of the interstate highway system. The interstate system serves many cities, large and small, and metropolitan areas. Transportation planning of necessity gives consideration in these areas to urban transit.

### The Federal Government

The Housing Act of 1961 was the first official recognition by the federal government of the problem of mass transportation. The act specifically authorizes that the planning assistance program shall include comprehensive planning for mass transportation. The emphasis is on metropolitan and regional planning. The act also authorizes a demonstration grant program to local public agencies for projects that will improve mass transportation or reduce mass transportation needs.

Finally, the act authorizes loans to public bodies to finance the acquisition, construction, and improvement of transportation facilities. The transportation facilities can be operated either by public agencies or by private companies, but the federal loans will be made only to public agencies.

The Advisory Commission on Intergovernmental relations made two specific recommendations for federal government action in the mass transportation field.<sup>7</sup>

1. Congress should adopt a law giving Congressional consent in advance to interstate compacts

<sup>6</sup> Advisory Commission on Intergovernmental Relations, *Intergovernmental Responsibilities for Mass Transportation Facilities and Services in Metropolitan Areas* (Washington, D. C.: The Commission, 1961), p. 43.

<sup>7</sup> *Ibid.*, pp. 50-54.



that create agencies that are responsible for mass transportation planning in metropolitan areas located in two or more states.

2. Congress should enact legislation (1) to provide grants for state and local governments to develop comprehensive transportation plans in urban areas; (2) to underwrite demonstration projects for developing and testing innovations in mass transportation facilities and services; and (3) to initiate long-term, low-interest loans to state and local governments for improvement of mass transportation facilities and equipment. This recommendation was largely achieved with the enactment of the Housing Act of 1961.

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*Note.* This report was prepared by David S. Arnold, publications director, the International City Managers' Association.



## Appendix A

## DATA FOR CITY-OWNED TRANSIT SYSTEMS, 1961

This table includes data for 57 city-owned transit systems. Transit Board: "Yes" means an independent board, authority, or commission operates the transit system; in some cities an over-all public utilities board operates the transit system. See code letters below for appointment of transit board, appointment of transit superintendent, and authority to set transit fares. Operating Revenue: Total: Gross revenue exclusive of borrowing. Total Expenditures: Includes operating expenses; depreciation for equipment replacement; federal, state, and local taxes, including in lieu payments; and payments on debt. All financial data are for 1960 or fiscal year ending in 1960.

Appt. of Transit Board, Supt.; Authority for Transit Fares

T - Transit or public utilities board

A - City manager

M - Mayor

G - Governor

C - City council

S - State public utilities commission

City	Transit Board	No. Mems., How Apptd.	Who Appts. Transit Supt.	Who Sets Transit Fares	Operating Revenue (in thousands)		Total Expend- itures (in thou- sands)
					Total	From Fares	
California							
Bakersfield . . . . .	Yes	7C	T	T	294	287	435
Culver City . . . . .	No	...	C	C	285	274	295
Gardena . . . . .	No	...	A	C	357	312	334
Los Angeles . . . . .	Yes <sup>1</sup>	7G	T	T	43,440	42,561	42,835
Montebello . . . . .	No	...	C	C	281	276	373
Oceanside . . . . .	No	...	A	C	408	373	382
Ontario . . . . .	No	...	A	C	23	18	29
Oxnard . . . . .	No	...	A	C	...	54	69
Sacramento . . . . .	Yes	7C	T	T	1,551	...	1,540
San Francisco . . . . .	Yes	5M	T	T <sup>2</sup>	20,025	19,718	26,160
San Buenaventura . . . . .	No	...	A	C	97	93	116
Santa Monica . . . . .	No	...	A	C	1,978	1,918	1,722
Santa Rosa . . . . .	Yes	5C	A	T	33	26	31
Torrance . . . . .	No	...	A	C	187	171	261
Colorado							
Greeley . . . . .	No	...	A	C	2	2	8
Florida							
Coral Gables . . . . .	No	...	A	C	...	528	531
Dade County (Miami) . . .	Yes <sup>3</sup>	5C	T	T	...	...	...
Fernandina Beach . . . . .	No	...	A	C	9	6	11
Panama City . . . . .	No	...	A	C	137	135	176
St. Petersburg . . . . .	No	...	A	C	1,348	1,318	1,381
Georgia							
Savannah . . . . .	Yes	5... <sup>4</sup>	T	T <sup>5</sup>	997	967	1,069



## Appendix A — continued

City	Transit Board	No. Mems., How Apptd.	Who Appts. Transit Supt.	Who Sets Transit Fares	Operating Revenue (in thousands)		Total Expend- itures (in thou- sands)
					Total	From Fares	
Illinois							
Chicago . . . . .	Yes	7MG <sup>6</sup>	T	T	132,093	130,265	132,339
Pekin . . . . .	No	...	C	C	73	63	75
Indiana							
Michigan City . . . . .	No	...	M	...	83	83	120
Kentucky							
Henderson . . . . .	Yes	3M	C	C	29	29	29
Louisiana							
Monroe . . . . .	No	...	C	C	229	229	277
Maryland							
Greenbelt . . . . .	No	...	A	C	14	9	14
Massachusetts							
Boston . . . . .	Yes <sup>7</sup>	3G	T <sup>8</sup>	T <sup>9</sup>	36,035	35,913	56,961
Greenfield . . . . .	Yes <sup>10</sup>	4C	T	S	73	31	80
Michigan							
Ann Arbor . . . . .	No <sup>11</sup>	...	...	C	...	...	...
Detroit . . . . .	Yes	3M	T	T	34,021	33,695	33,492
Jackson . . . . .	No <sup>11</sup>	...	...	C	180	175	169
Kalamazoo . . . . .	No <sup>11</sup>	...	...	...	258	193	225
Port Huron . . . . .	No <sup>12</sup>	...	A	C	95	...	95
Saginaw . . . . .	No <sup>11</sup>	...	...	C	231	228	223
Missouri							
Springfield . . . . .	Yes	9M	T	C	654	477	654
New Mexico							
Roswell . . . . .	No	...	C	C	...	...	...
New York							
Long Beach . . . . .	No	...	A	C	...	95	77
New York . . . . .	Yes	3... <sup>13</sup>	T	T	278,747	267,597	273,534
Ohio							
Ashtabula . . . . .	No	...	...	C	41	36	...
Cleveland . . . . .	Yes	5M	T	T	27,670	27,070	27,441
Maple Heights . . . . .	No	...	M	C	351	348	353
Shaker Heights . . . . .	No	...	M	C	1,433	1,408	1,433
Pennsylvania							
New Castle . . . . .	Yes	5M	T	T	179 <sup>14</sup>	178 <sup>14</sup>	181 <sup>14</sup>



## Appendix A — continued

City	Transit Board	No. Mems., How Apptd.	Who Appts. Transit Supt.	Who Sets Transit Fares	Operating Revenue (in thousands)		Total Expend- tures (in thou- sands)
					Total	From Fares	
<u>Tennessee</u>							
Memphis . . . . .	Yes	3M	T	T	...	...	...
<u>Texas</u>							
Haltom City . . . . .	No	...	C	C	34	29	44
San Angelo . . . . .	No	...	A	C	123	123	142
San Antonio . . . . .	Yes	5C	T	T <sup>15</sup>	5,233	4,824	4,955
<u>Virginia</u>							
Radford . . . . .	No	...	A	C	12	12	16
Staunton . . . . .	No	...	A	C	51	...	53
Winchester . . . . .	No	...	A	C	24	23	32
<u>Washington</u>							
Seattle . . . . .	Yes	5M	T	T	9,359	9,142	9,369
Tacoma . . . . .	No	...	A	C	1,464	1,440	1,501
<u>Wisconsin</u>							
Ashland . . . . .	No	...	M	C	8	8	13
Janesville . . . . .	No	...	A	C	113	113	127
<u>Canada</u>							
Calgary . . . . .	Yes	3C	C	T	3,037	2,978	3,249

<sup>1</sup> The Los Angeles Metropolitan Transit Authority was created by the state legislature in 1958 to serve Los Angeles County.

<sup>2</sup> Can be vetoed by city council, but it requires nine out of 11 votes.

<sup>3</sup> The Metropolitan Dade County Transit Authority is in the process of acquiring four major bus companies in the area. The Authority eventually will serve the entire county.

<sup>4</sup> Appointed by the mayor, the chairman of the Chatham County Commission, and the Savannah District Authority.

<sup>5</sup> Subject to approval by the state public utilities commission.

<sup>6</sup> Four appointed by the mayor, three by the governor.

<sup>7</sup> The Metropolitan Transit Authority serves Boston and 13 other cities and towns in the area.

<sup>8</sup> Subject to approval of Advisory Board of the Metropolitan Transit Authority which consists of mayors or chairmen of selectmen in 14 cities and towns served.

<sup>9</sup> Subject to approval of Advisory Board (see footnote 8) and state department of public utilities.

<sup>10</sup> Serves Greenfield-Montague area.

<sup>11</sup> The Michigan cities of Ann Arbor, Jackson, Kalamazoo, and Saginaw use the "Jackson" plan of ownership, operation, and financing. The city government leases the buses and other capital equipment of the bus company and retains the management services of the company.

<sup>12</sup> City leases bus systems to former owner; city buys supplies and performs other management and financial services.

<sup>13</sup> One member appointed by the mayor, another by the governor. These two members appoint the third member who is chairman.

<sup>14</sup> Due to change in fiscal year, data shown only for 10 months, March 1 - December 30, 1960.

<sup>15</sup> Subject to approval of city council.



## Appendix B

## PRINCIPAL BUS FRANCHISE PROVISIONS, WICHITA, KANSAS

The following statement has been taken from a paper delivered by Frank H. Backstrom, city manager of Wichita, at the 1960 annual conference of the International City Managers' Association. Minor revisions have been made to bring the statement up to date.

1. The grantee proposed to provide 60 all new air-conditioned 44-passenger diesel GMC coaches.
2. The grant would be for 10 years.
3. The company would be allowed to earn profits up to an amount equal to 15 per cent of gross revenue during any 12-month period. Likewise, if profits dropped below 8 per cent of gross revenue, the company would be entitled to an automatic fare increase or to make route or schedule changes. The city staff successfully negotiated with the company to add an additional maximum profit provision calculated to be 15 per cent of the depreciated replacement cost new of the company's physical equipment. The additional limitation would not come into play as long as the company's equipment was being replaced within a four-year period; however, one can see that should the equipment not be replaced at the end of 8 years, the company would be allowed absolutely no profit.
4. Interest (excluding interest paid to stockholders or interest paid on moneys representing paid-in capital) would be allowable as an operating expense in calculating profits. Similarly, federal income taxes, whether or not paid, are defined as legitimate expenses. This feature deserves some particular attention. It is the company's avowed intention to calculate depreciation for rate purposes under the franchise on an eight-year basis. Indeed, the franchise clearly specifies this; however, the company hopes and plans to use an accelerated depreciation schedule of the federal government (roughly four years) in calculating income taxes. If the equipment of the company can be disposed of at the end of two, three, or four years at good prices, the company will probably show very small operating profits under the franchise but in actuality will have sizable capital gains at the lower federal tax rate.
5. Should the city choose to dispute expense items claimed by the franchise grantee, both parties have contracted to abide by the decision of a board of arbitration of three certified public accountants, one selected by the city, one selected by the grantee, and the third selected by the first two.
6. The franchise provides a 90-day trial period on routes ordered in by the City Commission, delineates clearly the conditions under which the company may make route and headway changes, but generally provides binding protection in all of these areas for the riding public.
7. The franchise proposed by the grantee originally required the city to refund all motor fuel taxes paid to the State of Kansas by the company. The city staff successfully negotiated with the franchise applicant before the franchise had been approved to refund such taxes only in an amount necessary to offset the company's losses, if any. In other words, the company would have to actually lose money before any tax reimbursement would be made. However, at a crucial stage of negotiation it was agreed that all tax reimbursements or subsidies, would be relinquished if the city would lease a surplus building to the company for \$1,000 per month. The building in question was a little-used produce market that was constructed during the 1930's to provide a market place for truck farmers in the Wichita hinterland. The market was unattractive and had been completely antiquated by today's modern supermarket. Only four or five parties used the market. None of these were farmers; they were truckers instead, and they used it as a public warehouse and wholesale transfer point rather than for retail selling purposes as originally intended. The transit company agreed to take a 10-year lease on the building, to install some \$35,000 worth of improvements, and to maintain the building in good condition for the life of the lease. Local realtors advised us that it was an excellent deal for the city.



## Appendix B — continued

Generally speaking then, Wichita negotiated a franchise that gave the operating company almost complete freedom in the area of rates, schedules and headways. The general feeling in the community was that complicated restrictions were almost self-defeating anyway, since route and rate structures are normally governed by practical economics.

The franchise further provides that the rate of return or profit can be extremely high as long as the company maintains modern new equipment. Of paramount importance is the need for community support and understanding of the problems which any transit company faces. The city staff makes it a practice to meet almost weekly with transit officials to discuss common problems. The downtown businessmen, the Chamber of Commerce and other groups are attempting to promote the public transit system. Through these techniques the company has achieved a highly favorable corporate image and has succeeded in making a bus ride a "prestige" symbol.



